Fundsmith Equity Fund
Short form report

For the period from launch 1 November 2010 to 31 December 2011

Fundsmith

Profile of the fund

Investment objective and policy

The aim of the Company is to achieve long-term growth in value.

The Company will invest in equities on a global basis. The Company's approach is to be a long-term investor in its chosen stocks. It will not adopt short-term trading strategies.

The Company has stringent investment criteria which the ACD, as investment manager, adheres to in selecting securities for the Company's investment portfolio. These criteria aim to ensure that the Company invests in businesses:

- that can sustain a high return on operating capital employed;
- whose advantages are difficult to replicate;
- which do not require significant leverage to generate returns;
- with a high degree of certainty of growth from reinvestment of their cash flows at high rates of return;
- that are resilient to change, particularly technological innovation; and
- whose valuation is considered by the Company to be attractive.

Risk profile

The fund has no exposure to derivatives and no borrowings. Further, the investments are all in large publicly quoted companies where there is significant liquidity in the stock. Whilst the fund is invested on a global basis, there is no currency hedging. The principal risk factor is the market price of the securities which the ACD reviews in the light of the fund objectives.

Risk warning

Any stockmarket investment involves risk. These risk factors are contained in the full Prospectus. Investors should be aware that the price of shares and the income from them can fall as well as rise and investors may not receive back the full amount invested. Past performance is not a guide to future performance.

Net asset value and Total Expense Ratio (“TER”)
as at 31 December 2011

	31.12.11
T Class (Accumulation shares)	
Total net asset value (£)	110,094,759
Net asset value per share (p)	114.98
Number of shares in issue	95,752,314
Performance since launch*	15.0%
Total expense ratio	1.20%
T Class (Income shares)	
Total net asset value (£)	14,883,839
Net asset value per share (p)	113.52
Number of shares in issue	13,110,685
Performance since launch*	14.0%
Total expense ratio	1.20%
R Class (Accumulation shares)	
Total net asset value (£)	10,178,969
Net asset value per share (p)	114.32
Number of shares in issue	8,903,889
Performance since launch*	14.4%
Total expense ratio	1.69%
R Class (Income shares)	
Total net asset value (£)	7,992,264
Net asset value per share (p)	113.46
Number of shares in issue	7,044,357
Performance since launch*	13.7%
Total expense ratio	1.69%
I Class Net (Accumulation shares)	
Total net asset value (£)	26,625,935
Net asset value per share (p)	115.09
Number of shares in issue	23,133,905
Performance since launch*	15.1%
Total expense ratio	1.10%
I Class Net (Income shares)	
Total net asset value (£)	61,173,345
Net asset value per share (p)	113.51
Number of shares in issue	53,891,499
Performance since launch*	14.0%
Total expense ratio	1.10%

*The Fund launched on 1 November 2010; therefore, five-year performance data are not available. The Total Expense Ratio (“TER”) is the total expenses paid by the fund (excluding transaction charges and bank overdraft interest), annualised, against its average net asset value. The TER will fluctuate as the average net assets and costs change.

The performance is quoted, net of costs, for the period from launch on 1 November to 31 December 2011. Source for performance data: Fundsmith LLP

Portfolio turnover rate (“PTR”)

The PTR has been calculated in accordance with the methodology laid down by the FSA. This compares the total share purchases and sales less total creations and liquidations with the average net asset value of the fund. For the 12 months ending 31 December, the PTR was 15.7%.

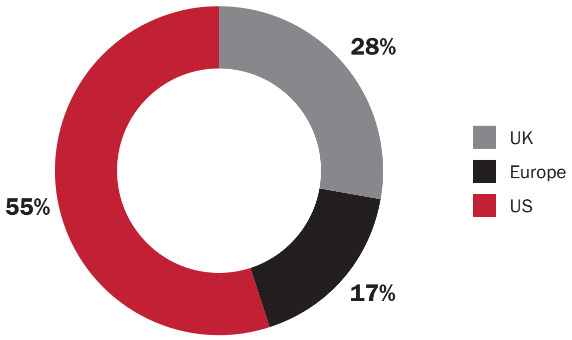
Price and revenue records

Calendar year all figures in pence (unless otherwise stated)	1.1.11 to 31.12.11	1.11.10 to 31.12.10
T Class (Accumulation shares)		
Accumulation share price – high	115.47	107.52
Accumulation share price – low	100.47	98.98
Net revenue per accumulation share	1.4651*	-
T Class (Income shares)		
Income share price – high	114.51	107.52
Income share price – low	99.64	98.99
Net revenue per income share	1.4261*	-
R Class (Accumulation shares)		
Accumulation share price – high	115.10	107.46
Accumulation share price – low	100.12	98.97
Net revenue per accumulation share	0.8637*	-
R Class (Income shares)		
Income share price – high	114.44	107.45
Income share price – low	99.54	98.97
Net revenue per income share	0.8860*	-
I Class Net (Accumulation shares)		
Accumulation share price – high	115.54	107.53
Accumulation share price – low	100.55	98.99
Net revenue per accumulation share	1.5930*	-
I Class Net (Income shares)		
Income share price – high	114.49	107.53
Income share price – low	99.63	98.98
Net revenue per income share	1.5621*	-

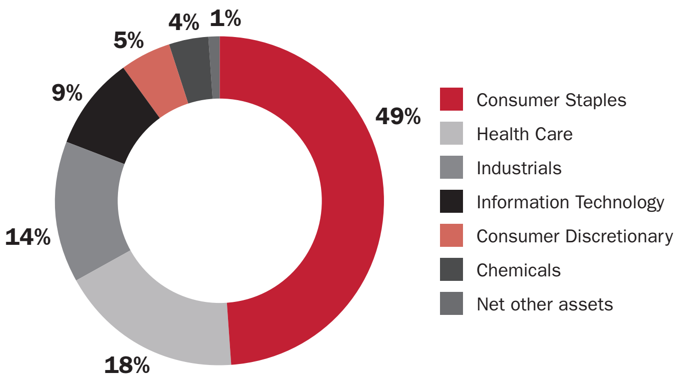
* to 28 February 2012

Information on the fund

Breakdown by geography as at 31 December 2011



Breakdown by sector as at 31 December 2011



Top ten holdings	% of Fund at 31.12.11
Becton Dickinson and Company	5.39
L'Oréal	5.34
Intercontinental Hotels	5.30
Nestlé	5.30
Microsoft	5.17
Unilever	5.06
Stryker	5.05
Imperial Tobacco	4.81
Procter & Gamble	4.81
Pepsi	4.77

Investment Manager's review

You will have received a short time ago the Shareholders' letter for the year which covered the development of the fund during 2011. Our views have not changed since that time and therefore we broadly repeat the comments here.

Fundsmith opened for business on 1 November 2010, and so completed its first year in existence on 31 October 2011. We have presented two sets of performance figures this year – the performance since inception and the last calendar year.

We remain critical of attempts to measure investment performance over short periods of time. Even a calendar year is too short for this purpose – it is the time it takes the Earth to go around the Sun and has no natural link to the investment or business cycle.

However this proviso notwithstanding, The Fundsmith Equity Fund rose by 8.4% net of fees for the year. This compares with some relevant benchmarks as follows:

	1.11.10 to 31.12.11	1.11.10 to 31.10.11
Fundsmith Equity Fund	15.0%	8.4%
MSCI World £	3.2%	-4.5%
MSCI EAFE £	-6.1%	-11.2%
FTSE 100	2.8%	-1.5%
FTSE Actuarial Gilt Index	14.7%	15.6%

Source: Bloomberg

Investment Manager's review (continued)

The Fund outperformed the MSCI World Index, which we regard as the most relevant comparator, by 12.9% for the year.

This strikes us as a good performance. It was achieved against the background of a year in which it gradually dawned on many people that the financial crisis of 2008-09 had not been solved but had rather been transformed into a sovereign debt crisis: if 2008 was the year in which governments saved banks, 2011 was the year in which the main question which emerged was who would save the governments. Against this backdrop it is hardly surprising that equity markets performed poorly and so has the average fund.

Only six other funds in the IMA Global Growth sector (into which the Fund is classified) achieved a positive return in 2011. This performance for the year took the Fund to third place in the Morningstar performance rankings for global equity funds.

The main positive contributors to that performance were: Domino's Pizza, Philip Morris International, Imperial Tobacco, Colgate-Palmolive and Unilever.

The main detractors from the Fund's performance were: Serco, Stryker, Kone, Becton Dickinson and Company and Intercontinental Hotels.

Turnover in the Fund in 2011 was 15.7%. This was higher than we would ideally like, although still significantly lower than most funds.

Part of this turnover was really involuntary. We sold Del Monte Foods prior to the closing of the cash bid from KKR, and sold our holding in Clorox after a bid approach from Carl Icahn which we correctly judged would not result in an actual takeover but which drove the share price to a valuation which we regarded as offering poor value.

Excluding dealing in Del Monte and Clorox, the turnover was 4% which is much closer to the level we seek (zero ideally).

The only voluntary turnover during the year were sales of our holdings in Kimberly-Clark Corporation and Domino's Pizza, Kimberly-Clark began to show adverse results from our regular calculation of the incremental return on capital. We sold the shares at a small profit. They have subsequently performed poorly in terms of fundamental performance although the share price has ironically been quite firm.

We prefer to judge our investments by what is happening in their financial statements than by the share price. Domino's Pizza shares rose in price by 113% during the year and had reached a point at which they no longer represented good value. Domino's also has a re-financing of debt due by 2014. There is nothing in the performance of Domino's which causes us the slightest concern about this but there is plenty wrong with the banking system which will be required to provide the refinancing. As a result we hope to have the opportunity to become investors in Domino's again.

The net result of this was that the Total Expense Ratio of the Fund was 1.20% for T Class. We hope to reduce that in future.

The historical dividend yield on the Fund at year end was 2.4%. This dividend was covered 2.6 times by earnings. There is only one stock in the Fund that does not currently pay a dividend. This is significant: it is becoming clear that dividends are likely to provide a more significant portion of the total return on equities in the future than they did in the equity bull markets of 1982-2000 and 2003-07.

The effect of this underlying yield, after charges are deducted is that the T Class Accumulation share had a dividend for the period of 1.4651p.

At the end of 2011 we held a portfolio of 24 stocks.

On average, companies in our portfolio were founded in 1894. We continue to invest in businesses which have shown great resilience over a long period of time – in most cases surviving two world wars and the Great Depression.

The trailing free cash flow ("FCF") yield at the start of the year was about 7% and about 5.8% at the end. The fall in the FCF yield was caused by a combination of the rise of share prices in the portfolio, changes in the portfolio and higher capital expenditure and working capital invested by the portfolio companies. This FCF yield compares with a median FCF yield on the S&P 500 of 6.1%. We have used the median by the way as the average is distorted by inclusion, for example, of a free cash flow yield of 76% on shares in Bank of America ("B of A"). Before you rush to buy B of A shares however you might like to know that cash flows at banks are not the same as they are at non banking businesses. So, for example, in the calculation of B of A's cash flow the computation adds back the provisions for bad debts and impaired assets which is a deduction from profits. This is strictly true – a provision is a non cash item – but it means that comparisons of banks with other company's cash flow in this manner is truly a case of comparing apples and ugli fruit (I chose a fruit which was more alphabetically remote from A for Apples than the commonly used P for Pears and which exemplifies our view of banks).

Our portfolio has a FCF yield about the same as the average for the market. Yet it is inconceivable in our view that it is not of higher than average quality in terms of longevity, resilience, predictability, gross margins, operating margins, return on operating capital and the conversion of profits into cash. Put simply this means that we own shares in businesses which are higher quality than the market on a valuation about the same as the average for the market.

We are often asked by investors whether we hedge currencies. The answer is a firm 'No'. How would we do so? Should we base it on the currency of the country in which the companies are listed? This obviously would not work. There may be no connection between the country in which a company is listed and its area of operations. The same is true of its country of incorporation or headquarters. Nestlé is an example we often cite in this respect. Although it is headquartered in Switzerland, has its main listing there and reports in Swiss francs, it has only about 2% of its revenues in Switzerland, so hedging our holding by selling Swiss francs forward against sterling would surely not be a hedge at all. It is also far from unknown for companies to report in a different currency to that of the country in which they are headquartered or listed.

Perhaps we should hedge currencies based upon the country in which each of our investee companies has its revenues? The problem with this approach is twofold. Firstly, most of the companies supply low value items and so manufacture and sell locally or at least regionally. No one exports significant amounts of bulky low value items such as detergent. So the exposure, if there is any, relates only to the profit margin. Secondly, the corporate treasurer may already have taken out a currency hedge for the translation and/or transmission of those profits so that any currency hedge by us would in fact be creating an exposure.

A lot of nonsense is talked about currency exposure and hedging. Our new funds denominated in Euros and US Dollars do not change the currency risks of those funds which are driven by the underlying investments. For those who don't believe this, we are prepared to launch a new class of our Fund which will change its currency denomination each year to the worst performing currency. In 2011 it would have been denominated in Turkish Lira and would have risen by 32%. However, since you would receive this depreciated currency when you sell the Fund units, you won't be any wealthier as a result. If you think you would be, let us know and we will set up the Money Illusion class of the Fund.

We view the year ahead with some trepidation. It seems that it has yet to dawn on many of the key participants in the financial crisis that you cannot borrow and spend your way out of a crisis caused by over leverage, and that there is no higher authority than the governments whose credit is now in doubt which can extend further funds to provide a painless "solution" or maybe even a temporary respite. The dawning of this reality is sure to have some very painful consequences.

However, in contrast the Credit Default Swaps of Nestlé have been less expensive than the cost of insuring against default on the debt of European governments and the US Treasury for some time. We are far from believers that the market is always right, but this does suggest that holding shares in major, conservatively financed companies which make their profits from a large number of small, everyday, predictable events is a relatively safe place to be if you have the patience, fortitude and liquidity to ride out the share price volatility which is likely to occur in such circumstances. And that's exactly where and how our Fund is invested.

Terry Smith
Fundsmith LLP
1 February 2012

General information

Report and accounts

Each year, you will be sent final and interim reports discussing investment activity during the period and providing management commentary.

Shareholders will be sent the short report for the Company automatically and the long report will be available, free of charge, upon request from the ACD.

UCITS IV

The Fund is an Undertaking for Collective Investment in Transferable Securities ('UCITS IV") for the purpose of the Council Directives 2001/107/EC ("the Management Directive") and 2001/108/EC ("the Product Directive").

Prospectus

The Fund Prospectus, an important document describing Fundsmith Equity Fund in detail, is available from the ACD, which is responsible for the management and administration of the Funds. The ACD for Fundsmith Equity Fund is Fundsmith LLP located at 33 Cavendish Square, London W1G 0PW.

Minimum investment

The company has three different types of share classes:

I shares, R shares and T shares.

The T share class has been used as the representative share class.

There are two types of share available in each class – Income shares or Accumulation shares.

The following table summarises the investment levels for T shares.

Minimum initial lump sum subscription	**£2,500**
Minimum monthly investment	**£100**
Minimum holding	**£2,500**
Minimum subsequent investment size	**£250**
Minimum redemption size	**£250**

Publication of prices

The most recent share prices will be published daily in the Daily Telegraph or Financial Times and the website www.fundsmith.co.uk.

Dealing Charges

There are no dealing charges on the purchase, sale or switching of shares.

Stamp Duty Reserve Tax

The ACD may also levy an SDRT charge on the redemption or transfer of shares. The SDRT charge will be paid into the Company. This charge is paid for directly by the investor and will be deducted from the redemption proceeds before being paid to the investor.

Dilution Adjustment

The ACD may impose a dilution adjustment to the share price. The dilution adjustment aims to mitigate the costs to the Company of making investments (when additional cash is available following new investment into the Company) or selling investments in order to meet redemption requests. Further information regarding the circumstances in which a dilution adjustment may be applied is set out in the full Prospectus.

Distribution Payment Dates

Interim 31 August

Final 28 February

Fundsmith

Contact details

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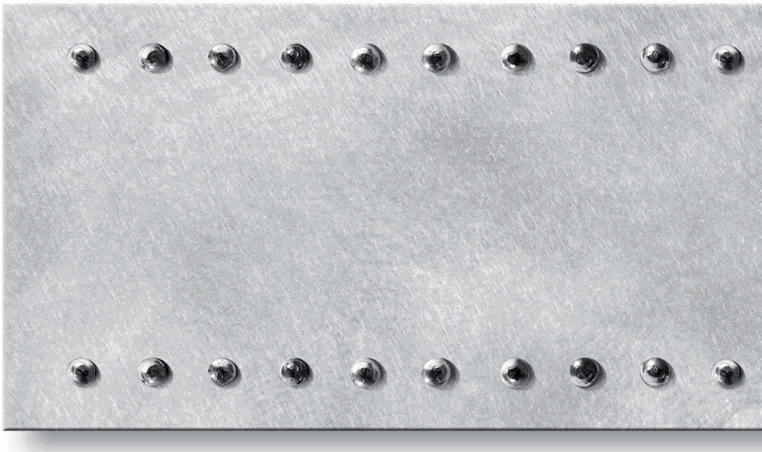

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